

IOWA FALLS COMMUNITY SCHOOL DISTRICT

INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND  
SUPPLEMENTARY INFORMATION  
SCHEDULE OF FINDINGS

JUNE 30, 2006

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Iowa Falls Community School District

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
<b>Board of Education</b> <b>(Before September 2005 election)</b>		
Tom Johnson	President	2006
Shane Krukow	Vice President	2007
T.J. Norman	Board Member	2005
Elaine Loring	Board Member	2005
Paul Hoversten	Board Member	2006
<b>Board of Education</b> <b>(After September 2005 election)</b>		
T.J. Norman	President	2008
Shane Krukow	Vice President	2007
Elaine Loring	Board Member	2008
Paul Hoversten	Board Member	2006
Tom Johnson	Board Member	2006
<b>School Officials</b>		
Dr. John Robbins	Superintendent	2006
Trish Lee	District Secretary/ Treasurer	2006
Rick Engel	Attorney	2006
Clark McNeal	Attorney	2006

# **NOLTE, CORNMAN & JOHNSON P.C.**

## **Certified Public Accountants**

(a professional corporation)

117 West 3rd Street North, Newton, Iowa 50208-3040

Telephone (641) 792-1910

### **INDEPENDENT AUDITOR'S REPORT**

To the Board of Education of the  
Iowa Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Iowa Falls Community School District, Iowa Falls, Iowa as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements as listed in the table of contents. These financial statements are the responsibility of District officials. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Iowa Falls Community School District at June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year ended in conformity with U.S. generally accepted accounting principles.

In accordance with Government Auditing Standards, we have also issued our report dated September 11, 2006 on our consideration of the Iowa Falls Community School District's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

**Members American Institute & Iowa Society of Certified Public Accountants**

Management's Discussion and Analysis and budgetary comparison information on pages 4 through 13 and 35 through 36 are not required parts of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. We did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements that collectively comprise Iowa Falls Community School District's basic financial statements. Another auditor previously audited the two years ended June 30, 2004 and we previously audited the year ended June 30, 2005, in accordance with the standards referred to in the second paragraph of this report, the financial statements for three years ended June 30, 2005 (which are not presented herein). Unqualified opinions were given on those financial statements. Other supplementary information included in Schedules 1 through 5, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 11, 2006

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## MANAGEMENT'S DISCUSSION AND ANALYSIS

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Iowa Falls Community School District provides this Management's Discussion and Analysis of its financial statements. This narrative overview and analysis of the financial activities is for the fiscal year ended June 30, 2006. We encourage readers to consider this information in conjunction with the District's financial statements, which follow.

### 2006 FINANCIAL HIGHLIGHTS

- General Fund revenues increased from \$8,320,700 in fiscal year 2005 to \$8,845,729 in fiscal year 2006, while General Fund expenditures increased from \$8,294,729 in fiscal 2005 to \$8,779,288 in fiscal 2006. This resulted in an increase in the District's General Fund balance from \$762,644 in fiscal 2005 to \$829,085 in fiscal 2006, a 8.71% increase from prior year.
- The increase in General fund revenues was mainly attributable to an increase in state grant revenues received by the District. The increase in expenditures was due primarily to an increase in negotiated salaries and benefits.
- An increase in interest rates, combined with more cash available to be invested, resulted in interest earnings in the General Fund alone to increase from \$35,200 in fiscal year 2005 to \$39,139 in fiscal year 2006.

### USING THIS ANNUAL REPORT

The annual report consists of a series of financial statements and other information, as follows:

Management's Discussion and Analysis introduces the basic financial statements and provides an analytical overview of the District's financial activities.

The Government-wide Financial Statements consist of a Statement of Net Assets and a Statement of Activities. These provide information about the activities of Iowa Falls Community School District as a whole and present an overall view of the District's finances.

The Fund Financial Statements tell how governmental services were financed in the short term as well as what remains for future spending. Fund financial statements report Iowa Falls Community School District's operations in more detail than the government-wide statements by providing information about the most significant funds. The remaining statements provide financial information about activities for which Iowa Falls Community School District acts solely as an agent or custodial for the benefit of those outside of the School District.

Notes to the financial statements provide additional information essential to a full understanding of the data provided in the basic financial statements.

Required Supplementary Information further explains and supports the financial statements with a comparison of the District's budget for the year.

Other Supplementary Information provides detailed information about the nonmajor funds. In addition, the Schedule of Expenditures of Federal Awards provides detail of various programs benefiting the District.

Figure A-1 shows how the various parts of this annual report are arranged and relate to one another.

**Figure A-1**  
***Iowa Falls Community School District Annual Financial Report***

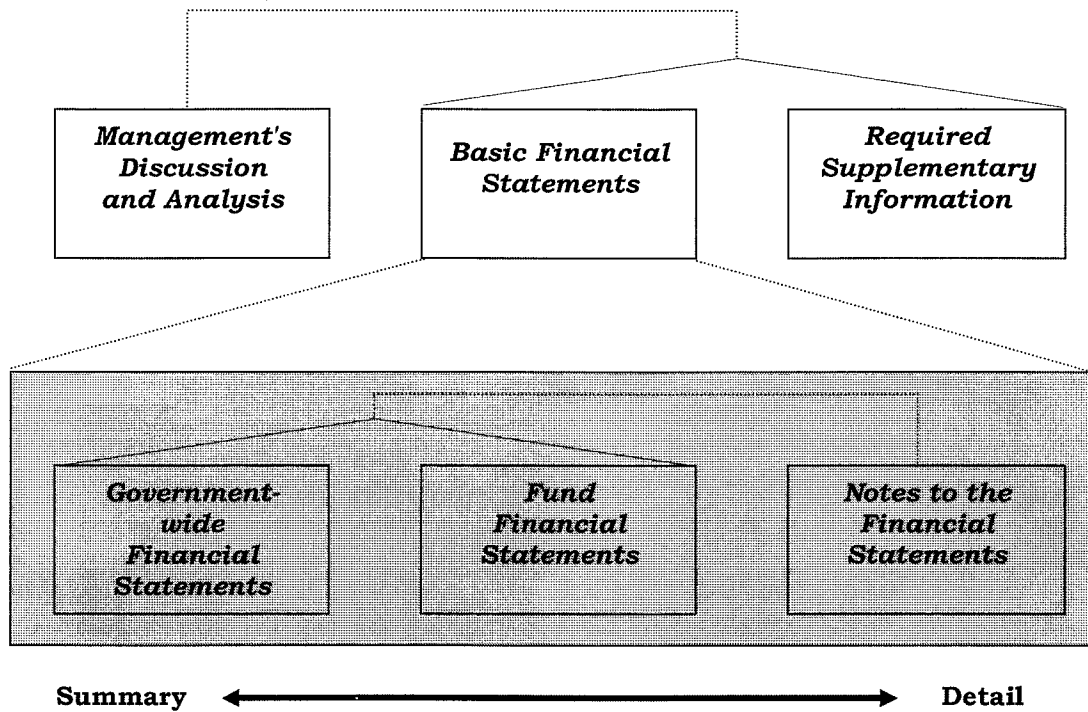


Figure A-2 summarizes the major features of the District's financial statements, including the portion of the District's activities they cover and the types of information they contain.

<b>Figure A-2</b> <b>Major Features of the Government-Wide and Fund Financial Statements</b>				
	Government-wide Statements	Fund Statements		
		Governmental Funds	Proprietary Funds	Fiduciary Funds
Scope	Entire district (except fiduciary funds)	The activities of the district that are not proprietary or fiduciary, such as special education and building maintenance	Activities the district operates similar to private businesses, e.g., food service	Instances in which the district administers resources on behalf of someone else, such as scholarship programs and student activities monies
Required financial statements	<ul style="list-style-type: none"> <li>• Statement of net assets</li> <li>• Statement of activities</li> </ul>	<ul style="list-style-type: none"> <li>• Balance sheet</li> <li>• Statement of revenues, expenditures, and changes in fund balances</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of revenues, expenses and changes in net assets</li> <li>• Statement of cash flows</li> </ul>	<ul style="list-style-type: none"> <li>• Statement of fiduciary net assets</li> <li>• Statement of changes in fiduciary net assets</li> </ul>
Accounting basis and measurement focus	Accrual accounting and economic resources focus	Modified accrual accounting and current financial resources focus	Accrual accounting and economic resources focus	Accrual accounting and economic resources focus
Type of asset/liability information	All assets and liabilities, both financial and capital, short-term and long-term	Generally assets expected to be used up and liabilities that come due during the year or soon thereafter; no capital assets or long-term liabilities included	All assets and liabilities, both financial and capital, and short-term and long-term	All assets and liabilities, both short-term and long-term; funds do not currently contain capital assets, although they can
Type of inflow/outflow information	All revenues and expenses during year, regardless of when cash is received or paid	Revenues for which cash is received during or soon after the end of the year; expenditures when goods or services have been received and the related liability is due during the year or soon thereafter	All revenues and expenses during the year, regardless of when cash is received or paid	All additions and deductions during the year, regardless of when cash is received or paid

## REPORTING THE DISTRICT'S FINANCIAL ACTIVITIES

### Government-wide Financial Statements

The government-wide financial statements report information about the District as a whole using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the District's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities, regardless of when cash is received or paid.



The two government-wide financial statements report the District's net assets and how they have changed. Net assets – the difference between the District's assets and liabilities – are one way to measure the District's financial health or position. Over time, increases or decreases in the District's net assets are an indicator of whether financial position is improving or deteriorating. To assess the District's overall health, additional non-financial factors, such as changes in the District's property tax base and the condition of school buildings and other facilities, need to be considered.

In the government-wide financial statements, the District's activities are divided into two categories:

- *Governmental activities:* Most of the District's basic services are included here, such as regular and special education, transportation and administration. Property tax and state aid finance most of these activities.
- *Business-type activities:* The District charges fees to help cover the costs of certain services it provides. The District's school nutrition program is included here.

### **Fund Financial Statements**

The fund financial statements provide more detailed information about the District's funds, focusing on its most significant or "major" funds – not the District as a whole. Funds are accounting devices the District uses to keep track of specific sources of funding and spending on particular programs.

Some funds are required by state law and by bond covenants. The District establishes other funds to control and manage money for particular purposes, such as accounting for student activity funds or to show that it is properly using certain revenues such as federal grants.

The District has three kinds of funds:

- 1) *Governmental funds:* Most of the District's basic services are included in governmental funds, which generally focus on (1) how cash and other financial assets that can readily be converted to cash flow in and out and (2) the balances left at year-end that are available for spending. Consequently, the governmental fund statements provide a detailed short-term view that helps determine whether there are more or fewer financial resources that can be spent in the near future to finance the District's programs.

The District's governmental funds include the General Fund, Special Revenue Funds, Debt Service Fund and Capital Projects Fund.

The required financial statements for the governmental funds include a balance sheet and a statement of revenues, expenditures and changes in fund balances.

- 2) *Proprietary funds:* Services for which the District charges a fee are generally reported in proprietary funds. Proprietary funds are reported in the same way as the government-wide financial statements. The District's enterprise funds, one type of proprietary fund, are the same as its business-type activities, but provide more detail and additional information, such as cash flows. The District currently has two Enterprise Fund, the School Nutrition Fund and the Day Care Fund.

The required financial statements for the proprietary funds include a statement of net assets, a statement of revenues, expenses and changes in net assets and a statement of cash flows.

3) *Fiduciary funds*: The District is the trustee, or fiduciary, for assets that belong to others. These funds include Private Purpose Trust and Agency Fund.

- Private Purpose Trust Fund – The District accounts for outside donations for scholarships for individual students in this fund
- Agency Fund – These are funds for which the District administers and accounts for certain revenues collected for District employee purchases of pop and related expenditures, as well as the Alumni Association.

The District is responsible for ensuring that the assets reported in the fiduciary funds are used only for their intended purposes and by those to whom the assets belong. The District excludes these activities from the District-wide financial statements because it cannot use these assets to finance its operations.

The required financial statements for fiduciary funds include a statement of fiduciary net assets and a statement of changes in fiduciary net assets.

Reconciliations between the government-wide financial statements and the fund financial statements follow the fund financial statements.

## GOVERNMENT-WIDE FINANCIAL ANALYSIS

Figure A-3 below provides a summary of the District's net assets at June 30, 2006 compared to June 30, 2005.

Figure A-3  
Condensed Statement of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Current and other assets	\$ 6,983,632	7,323,746	46,859	31,186	7,030,491	7,354,932	-4.41%
Capital assets	5,598,006	5,586,354	31,048	37,774	5,629,054	5,624,128	0.09%
Total assets	12,581,638	12,910,100	77,907	68,960	12,659,545	12,979,060	-2.46%
Long-term obligations	2,093,077	4,160,166	0	0	2,093,077	4,160,166	-49.69%
Other liabilities	4,754,485	3,655,249	9,319	9,585	4,763,804	3,664,834	29.99%
Total liabilities	6,847,562	7,815,415	9,319	9,585	6,856,881	7,825,000	-12.37%
Net assets:							
Invested in capital assets, net of related debt	3,767,743	3,509,206	31,048	37,774	3,798,791	3,546,980	7.10%
Restricted	1,043,914	776,721	0	0	1,043,914	776,721	34.40%
Unrestricted	922,419	808,758	37,540	21,601	959,959	830,359	15.61%
Total net assets	\$ 5,734,076	5,094,685	68,588	59,375	5,802,664	5,154,060	12.58%

The District's combined net assets increased by 12.58%, or \$648,604, over the prior year. The largest portion of the District's net assets is the invested in capital assets, net of related debt. The debt related to the investment in capital assets is liquidated with sources other than capital assets.

Restricted net assets represents resources that are subject to external restrictions, constitutional provisions or enabling legislation on how they can be used. The District's restricted net assets increased \$267,193 or 34.40% over the prior year.

Unrestricted net assets – the part of net assets that can be used to finance day-to-day operations without constraints established by debt covenants, enabling legislation or other legal requirements – increased \$129,600, or 15.61%.

Figure A-4 shows the changes in net assets for the year ended June 30, 2006 compared to June 30, 2005.

Figure A-4  
Changes of Net Assets

	Governmental Activities		Business-type Activities		Total District		Total Change
	2006	2005	2006	2005	2006	2005	2005-06
Revenues:							
Program revenues:							
Charges for services	\$ 1,050,093	1,153,853	259,502	250,931	1,309,595	1,404,784	-6.78%
Operating grants and contributions and restricted interest	998,540	844,630	214,245	191,375	1,212,785	1,036,005	17.06%
Capital grants and contributions and restricted interest	260,811	25,000	0	0	260,811	25,000	100.00%
General revenues:							
Property tax	3,161,786	3,421,763	0	0	3,161,786	3,421,763	-7.60%
Local option sales and services tax	632,618	522,384	0	0	632,618	522,384	21.10%
Unrestricted state grants	4,247,475	3,965,825	0	0	4,247,475	3,965,825	7.10%
Other	248,901	73,262	506	5	249,407	73,267	240.41%
Total revenues	10,600,224	10,006,717	474,253	442,311	11,074,477	10,449,028	5.99%
Program expenses:							
Governmental activities:							
Instruction	6,599,952	6,479,825	0	0	6,599,952	6,479,825	1.85%
Support services	2,565,397	2,113,487	0	0	2,565,397	2,113,487	21.38%
Non-instructional programs	21,368	12,210	465,040	461,505	486,408	473,715	2.68%
Other expenditures	774,116	845,977	0	0	774,116	845,977	-8.49%
Total expenses	9,960,833	9,451,499	465,040	461,505	10,425,873	9,913,004	5.17%
Changes in net assets	639,391	555,218	9,213	(19,194)	648,604	536,024	21.00%
Beginning Net Assets	5,094,685	4,539,467	59,375	78,569	5,154,060	4,618,036	11.61%
Ending Net Assets	\$ 5,734,076	5,094,685	68,588	59,375	5,802,664	5,154,060	12.58%

In fiscal 2006, property tax and unrestricted state grants account for 69.9% of the revenue from governmental activities while charges for service and sales and operating grants and contributions account for 99.9% of the revenue from business type activities.

The District's total revenues were approximately \$11.1 million of which \$10.6 million was for governmental activities and less than \$0.5 million was for business type activities.

As shown in Figure A-4, the District as a whole experienced a 5.99% increase in revenues and a 5.17% increase in expenses. Unrestricted state grants increased approximately \$281,650 to fund increases in expenditures. The increases in expenses related to increases in the negotiated salary and benefits as well as increases in expenses fund by grants received by the District.

## Governmental Activities

Revenues for governmental activities were \$10,600,224 and expenses were \$9,960,833.

The following table presents the total and net cost of the District's major governmental activities: instruction, support services, non-instructional programs and other expenses.

Figure A-5  
Total and Net Cost of Governmental Activities

	Total Cost of Services	Net Cost of Services
Instruction	\$ 6,599,952	4,907,360
Support services	2,565,397	2,562,803
Non-instructional programs	21,368	(10,126)
Other expenses	774,116	191,352
Totals	<u>\$ 9,960,833</u>	<u>7,651,389</u>

- The cost financed by users of the District's programs was \$1,050,093.
- Federal and state governments subsidized certain programs with grants and contributions totaling \$1,259,351.
- The net cost of governmental activities was financed with \$3,161,786 in property tax, \$632,618 in local option sales and services tax, \$4,247,475 in unrestricted state grants and \$100,793 in interest income.

## Business-Type Activities

Revenues of the District's business-type activities were \$474,253 and expenses were \$465,040. The District's business-type activities include the School Nutrition Fund. Revenues of these activities were comprised of charges for service, federal and state reimbursements and investment income.

## INDIVIDUAL FUND ANALYSIS

As previously noted, the Iowa Falls Community School District uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

The financial performance of the District as a whole is reflected in its governmental funds as well. As the District completed the year, its governmental funds reported combined fund balances of \$1,888,457, below last year's ending fund balances of \$3,342,724. However, the primary reason for the decrease in combined fund balances in fiscal 2006 is due to the District's crossover refunding issue being called to eliminate \$1,755,000 in general obligation indebtedness.

## Governmental Fund Highlights

- The District's increase in General Fund financial position from \$762,644 in fiscal 2005 to \$829,085 in fiscal 2006 is a product of many factors. Revenues increased due to the increase in unrestricted state grant revenue received by the District. The District's increase in General Fund expenditures was primarily due the increase in negotiated salaries and benefits.
- The Capital Projects Fund balance increased from \$535,058 in fiscal 2005 to \$907,952 in fiscal 2006 due to an increase in donations received by businesses and families within the District to build a new auditorium.

- The Debt Service Fund balance decreased from \$1,793,541 in fiscal 2005 to \$22,655 in fiscal 2006 due to paying the principal and interest to eliminate general obligation debt related to the May 1, 1998 issue.
- The Management Fund balance decreased from \$26,073 in fiscal 2005 to \$24,265 in fiscal 2006. The Management Fund expenditures include early retirement benefits, property and liability insurance coverage, worker's compensation insurance and unemployment benefits. The increase in Management Fund expenditures was primarily due to increased insurance rates and early retirement payouts.
- The Student Activity Fund balance increased from \$81,980 in fiscal 2005 to \$84,085 in fiscal 20056 due to the variance of student activities from year to year.
- The Physical Plant and Equipment Levy Fund balance decreased from \$134,102 in fiscal 2005 to \$963 in fiscal 2006 due to revenues decreasing \$146,828 compared to the previous year while expenditures held steady.
- The Expendable Trust Fund balance increased from \$9,326 in fiscal 2005 to \$19,452 in fiscal 2006 due to the variance of activities from year to year.

### **Proprietary Fund Highlights**

The Proprietary Fund net assets decreased from \$59,375 at June 30, 2005 to \$68,588 at June 30, 2006, representing an increase of 15.52%. The District turned a profit in both the Nutrition Fund as well as the Daycare to ensure the increase in overall net assets for the proprietary funds.

## **BUDGETARY HIGHLIGHTS**

Over the course of the year, Iowa Falls Community School District amended its annual budget one time to reflect additional expenditures in the support services function.

The District's revenues were \$660,139 less than budgeted revenues, a variance of 6.34%. The most significant variance resulted from the District receiving more in local sources than originally anticipated.

Total expenditures were less than budgeted, primarily to the District's budget for the General Fund. It is the District's practice to budget expenditures at the maximum authorized spending authority for the General Fund. The District then manages or controls General Fund spending through its line-item budget. As a result, the District's certified budget should always exceed actual expenditures for the year.

In spite of the District's budgetary practice, the certified budget was exceeded in the support services and non-instructional functions due to the timing of expenditures at year-end without sufficient time to amend the certified budget.

## **CAPITAL ASSET AND DEBT ADMINISTRATION**

### **Capital Assets**

At June 30, 2006, the District had invested \$5.6 million, net of accumulated depreciation, in a broad range of capital assets, including land, buildings, athletic facilities, computers, audio-visual equipment and transportation equipment. (See Figure A-6) This amount represents a net increase of 0.09% from last year. More detailed information about capital assets is available in Note 5 to the financial statements. Depreciation expense for the year was \$474,568.

The original cost of the District's capital assets was \$13.63 million. Governmental funds account for \$13.48 million with the remainder of \$0.15 million in the Proprietary, School Nutrition Fund.

The largest change in capital asset activity during the year occurred in the construction in progress category. The District's machinery had no construction in progress at June 30, 2005. The District reported a construction in progress balance of \$155,263 at June 30, 2006. This increase in construction in progress is a result of the construction of a new auditorium for the District.

Figure A-6  
Capital Assets, Net of Depreciation

	Governmental Activities		Business-type Activities		Total District		Total
	June 30,		June 30,		June 30,		June 30,
	2006	2005	2006	2005	2006	2005	2005-06
Land	\$ 128,358	128,358	0	0	128,358	128,358	0.00%
Construction in progress	155,263	0	0	0	155,263	0	100.00%
Buildings	4,527,152	4,573,725	0	0	4,527,152	4,573,725	-1.02%
Land improvements	144,285	150,515	0	0	144,285	150,515	-4.14%
Machinery and equipment	642,948	733,756	31,048	37,774	673,996	771,530	-12.64%
Total	\$ 5,598,006	5,586,354	31,048	37,774	5,629,054	5,624,128	0.09%

### Long-Term Debt

At June 30, 2006, the District had \$2,093,077 in general obligation and other long-term debt outstanding. This represents a decrease of 49.69% from last year. (See Figure A-7) More detailed information about the District's long-term liabilities is available in Note 6 to the financial statements.

The District had outstanding general obligation bonds of \$1,845,000 at June 30, 2006.

The District had outstanding early retirement payable from the Special Revenues, Management Levy Fund of \$248,077 at June 30, 2006.

Figure A-7  
Outstanding Long-Term Obligations

	Total School District		Total Change
	June 30,		June 30,
	2006	2005	2005-06
General obligation bonds	\$ 1,845,000	3,845,000	-52.02%
Early retirement	248,077	315,166	-21.29%
Totals	\$ 2,093,077	4,160,166	-49.69%

## ECONOMIC FACTORS BEARING ON THE DISTRICT'S FUTURE

At the time these financial statements were prepared and audited, the District was aware of existing circumstances that could affect its financial health in the future:

- Under Iowa's school funding formula, District funding is highly dependent upon District enrollments. Future enrollment stability is a critical element in maintaining a sound financial foundation. For fiscal year 2006, the District's certified enrollment increased by 18.4 students.

## **CONTACTING THE DISTRICT'S FINANCIAL MANAGEMENT**

This financial report is designed to provide the District's citizens, taxpayers, customers, investors and creditors with a general overview of the District's finances and to demonstrate the District's accountability for the money it receives. If you have questions about this report or need additional financial information, contact Trish Lee, Board Secretary/Treasurer, Iowa Falls Community School District, 710 North Street, Iowa Falls, Iowa, 50126.

BASIC FINANCIAL STATEMENTS



IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
JUNE 30, 2006

	Governmental Activities	Business-type Activities	Total
<b>ASSETS</b>			
Cash and cash equivalents:			
ISCAP(Note 4)	\$ 896,752	0	896,752
Other	2,674,901	36,095	2,710,996
Receivables:			
Property tax:			
Delinquent	36,888	0	36,888
Succeeding year	2,753,223	0	2,753,223
Income surtax	348,608	0	348,608
Accounts	2,147	1,806	3,953
Accrued interest:			
ISCAP(Note 4)	279	0	279
Other	5,763	0	5,763
Due from other governments	249,188	0	249,188
Inventories	0	8,958	8,958
Prepaid expenses	15,883	0	15,883
Capital assets, net of accumulated depreciation(Note 5)	5,598,006	31,048	5,629,054
<b>TOTAL ASSETS</b>	<b>12,581,638</b>	<b>77,907</b>	<b>12,659,545</b>
<b>LIABILITIES</b>			
Accounts payable	233,474	0	233,474
Salaries and benefits payable	854,808	3,196	858,004
Accrued interest payable	7,918	0	7,918
ISCAP warrants payable(Note 4)	898,000	0	898,000
ISCAP accrued interest payable(Note 4)	228	0	228
ISCAP unamortized premium	6,834	0	6,834
Deferred revenue:			
Succeeding year property tax	2,753,223	0	2,753,223
Other	0	6,123	6,123
Long-term liabilities(Note 6):			
Portion due within one year:			
General obligation bonds payable	300,000	0	300,000
Early retirement payable	123,487	0	123,487
Portion due after one year:			
General obligation bonds payable	1,545,000	0	1,545,000
Early retirement payable	124,590	0	124,590
<b>TOTAL LIABILITIES</b>	<b>6,847,562</b>	<b>9,319</b>	<b>6,856,881</b>
<b>NET ASSETS</b>			
Investment in capital assets, net of related debt	4,675,695	31,048	4,706,743
Restricted for:			
Teacher compensation	15,579	0	15,579
Prepaid expenses	15,883	0	15,883
Physical plant and equipment levy	963	0	963
Other special revenue purposes	103,537	0	103,537
Unrestricted	922,419	37,540	959,959
<b>TOTAL NET ASSETS</b>	<b>\$ 5,734,076</b>	<b>68,588</b>	<b>5,802,664</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF ACTIVITIES  
YEAR ENDED JUNE 30, 2006

	Program Revenues						Total
	Expenses	Charges for Services	Operating Grants, Contributions and Restricted Interest	Capital Grants, Contributions and Restricted Interest	Govern- mental Activities	Business- Type Activities	
Functions/Programs							
Governmental activities:							
Instruction:							
Regular instruction	\$ 4,253,630	544,096	577,870	0	(3,131,664)	0	(3,131,664)
Special instruction	1,142,896	234,615	55,468	0	(852,813)	0	(852,813)
Other instruction	1,203,426	271,164	9,379	0	(922,883)	0	(922,883)
	6,599,952	1,049,875	642,717	0	(4,907,360)	0	(4,907,360)
Support services:							
Student services	259,280	0	0	0	(259,280)	0	(259,280)
Instructional staff services	242,543	0	0	0	(242,543)	0	(242,543)
Administration services	1,019,513	0	0	0	(1,019,513)	0	(1,019,513)
Operation and maintenance of plant services	719,090	0	0	0	(719,090)	0	(719,090)
Transportation services	324,971	218	2,376	0	(322,377)	0	(322,377)
	2,565,397	218	2,376	0	(2,562,803)	0	(2,562,803)
Non-instructional programs:							
Community service operations	21,368	0	31,494	0	10,126	0	10,126
Other expenditures:							
Facilities acquisitions	141,972	0	0	260,811	118,839	0	118,839
Long-term debt interest	137,011	0	0	0	(137,011)	0	(137,011)
AEA flowthrough	321,953	0	321,953	0	0	0	0
Depreciation(unallocated)*	173,180	0	0	0	(173,180)	0	(173,180)
	774,116	0	321,953	260,811	(191,352)	0	(191,352)
Total governmental activities	9,960,833	1,050,093	998,540	260,811	(7,651,389)	0	(7,651,389)
Business-Type activities:							
Non-instructional programs:							
Nutrition services	443,352	233,295	214,245	0	0	4,188	4,188
Day care services	21,688	26,207	0	0	0	4,519	4,519
Total business-type activities	465,040	259,502	214,245	0	0	8,707	8,707
Total	\$ 10,425,873	1,309,595	1,212,785	260,811	(7,651,389)	8,707	(7,642,682)
General Revenues:							
Property tax levied for:							
General purposes					2,929,407	0	2,929,407
Debt service					155,695	0	155,695
Capital outlay					76,684	0	76,684
Local option sales and services tax					632,618	0	632,618
Unrestricted state grants					4,247,475	0	4,247,475
Unrestricted investment earnings					100,793	506	101,299
Other					148,108	0	148,108
Total general revenues					8,290,780	506	8,291,286
Changes in net assets					639,391	9,213	648,604
Net assets beginning of year					5,094,685	59,375	5,154,060
Net assets end of year					5,734,076	68,588	5,802,664

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
BALANCE SHEET  
GOVERNMENTAL FUNDS  
JUNE 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
<b>ASSETS</b>					
Cash and cash equivalents:					
ISCAP(Note 4)	\$ 896,752	0	0	0	896,752
Other	1,569,248	20,700	944,491	140,462	2,674,901
Receivables:					
Property tax:					
Delinquent	30,292	1,955	0	4,641	36,888
Succeeding year	2,407,546	0	0	345,677	2,753,223
Income surtax	348,608	0	0	0	348,608
Accounts	0	0	0	2,147	2,147
Accrued interest:					
ISCAP(Note 4)	279	0	0	0	279
Other	4,098	0	1,665	0	5,763
Due from other governments	139,139	0	110,049	0	249,188
Prepaid expenses	15,883	0	0	0	15,883
<b>TOTAL ASSETS</b>	<b>\$ 5,411,845</b>	<b>22,655</b>	<b>1,056,205</b>	<b>492,927</b>	<b>6,983,632</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 81,208	0	148,253	4,013	233,474
Salaries and benefits payable	840,336	0	0	14,472	854,808
ISCAP warrants payable(Note 4)	898,000	0	0	0	898,000
ISCAP accrued interest payable(Note 4)	228	0	0	0	228
ISCAP unamortized premium	6,834	0	0	0	6,834
Deferred revenue:					
Succeeding year property tax	2,407,546	0	0	345,677	2,753,223
Income surtax	348,608	0	0	0	348,608
Total liabilities	4,582,760	0	148,253	364,162	5,095,175
Fund balances:					
Reserved for:					
Teacher compensation	15,579	0	0	0	15,579
Debt service	0	22,655	0	0	22,655
Prepaid expenses	15,883	0	0	0	15,883
Unreserved:					
Undesignated:					
General	797,623	0	0	0	797,623
Capital projects	0	0	907,952	0	907,952
Management levy	0	0	0	24,265	24,265
Physical plant and equipment levy	0	0	0	963	963
Other special revenue purposes	0	0	0	103,537	103,537
Total fund balances	829,085	22,655	907,952	128,765	1,888,457
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 5,411,845</b>	<b>22,655</b>	<b>1,056,205</b>	<b>492,927</b>	<b>6,983,632</b>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE BALANCE SHEET - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF NET ASSETS  
 JUNE 30, 2006

Total fund balances of governmental funds (page 16)	\$	1,888,457
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*Amounts reported for governmental activities in the  
 statement of net assets are different because:*

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in in the governmental funds.		5,598,006
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Accounts receivable income surtax, are not yet available to finance expenditures of the current fiscal period.		348,608
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Accrued interest payable on long-term liabilities is not due and payable in the current period and, therefore, is not reported as a liability in the governmental funds.		(7,918)
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Long-term liabilities, including bonds payable and early retirement payable, are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds.		(2,093,077)
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Net assets of governmental activites (page 14)	\$	5,734,076
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SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES  
GOVERNMENTAL FUNDS  
YEAR ENDED JUNE 30, 2006

	General	Debt Service	Capital Projects	Nonmajor Special Revenue	Total
<b>REVENUES:</b>					
Local sources:					
Local tax	\$ 2,658,474	155,695	632,618	350,471	3,797,258
Tuition	778,711	0	0	0	778,711
Other	252,213	32,594	259,242	301,266	845,315
State sources	4,908,530	137	0	326	4,908,993
Federal sources	247,801	0	0	25,000	272,801
Total revenues	8,845,729	188,426	891,860	677,063	10,603,078
<b>EXPENDITURES:</b>					
Current:					
Instruction:					
Regular instruction	4,016,156	0	0	139,978	4,156,134
Special instruction	1,149,358	0	0	0	1,149,358
Other instruction	919,881	0	0	260,085	1,179,966
	6,085,395	0	0	400,063	6,485,458
Support services:					
Student services	253,474	0	0	13,509	266,983
Instructional staff services	222,412	0	38,594	44,937	305,943
Administration services	954,693	0	0	60,206	1,014,899
Operation and maintenance of plant services	682,544	0	0	31,239	713,783
Transportation services	258,817	0	0	89,175	347,992
	2,371,940	0	38,594	239,066	2,649,600
Non-instructional programs:					
Community service operations	0	0	0	21,368	21,368
Other expenditures:					
Facilities acquisitions	0	0	284,902	139,282	424,184
Long-term debt:					
Principal	0	245,000	0	0	245,000
Interest and fiscal charges	0	106,977	0	0	106,977
AEA flowthrough	321,953	0	0	0	321,953
	321,953	351,977	284,902	139,282	1,098,114
Total expenditures	8,779,288	351,977	323,496	799,779	10,254,540
Excess(deficiency) of revenues over(under) expenditures	66,441	(163,551)	568,364	(122,716)	348,538
<b>OTHER FINANCING SOURCES(USES)</b>					
Transfer in	0	195,470	0	0	195,470
Transfer out	0	0	(195,470)	0	(195,470)
Payment from escrow	0	(1,802,805)	0	0	(1,802,805)
TOTAL OTHER FINANCING SOURCES(USES)	0	(1,607,335)	(195,470)	0	(1,802,805)
Net change in fund balances	66,441	(1,770,886)	372,894	(122,716)	(1,454,267)
Fund balance beginning of year	762,644	1,793,541	535,058	251,481	3,342,724
Fund balance end of year	\$ 829,085	22,655	907,952	128,765	1,888,457

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS  
 TO THE STATEMENT OF ACTIVITIES  
 JUNE 30, 2006

Net change in fund balances - total governmental funds (page 18) \$ (1,454,267)

*Amounts reported for governmental activities in the  
 statement of activities are different because:*

Capital outlays to purchase or build capital assets are reported in governmental funds as expenditures. However, those costs are reported in the Statement of Net Assets and are allocated over their estimated useful lives as depreciation expense in the Statement of Activities. Capital outlay expenditures exceed depreciation expense and loss on disposal in the current year, as follows:

Expenditures for capital assets	\$ 478,800	
Depreciation expense	<u>(467,148)</u>	11,652

Income surtax accounts receivable is not available to finance expenditures of the current year period in the governmental funds. (2,854)

Some expenses reported in the Statement of Activities do not require the use of current financial resources and, therefore, are not reported as expenditures in the governmental funds.

Early retirement	67,089
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Repayment of long-term debt principal is an expenditure in the governmental funds, but it reduces long-term liabilities in the Statement of Net Assets. 2,000,000

Interest on long-term debt in the Statement of Activities differs from the amount reported in the governmental funds because interest is recorded as an expenditure in the funds when due. In the Statement of Activities, interest expense is recognized as the interest accrues, regardless of when it is due.

<u>17,771</u>
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Changes in net assets of governmental activities (page 15) \$ 639,391

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF NET ASSETS  
PROPRIETARY FUNDS  
JUNE 30, 2006

	School Nutrition	Day Care	Total
ASSETS			
Cash and cash equivalents:	\$ 25,101	10,994	36,095
Accounts receivable	1,806	0	1,806
Inventories	8,958	0	8,958
Capital assets, net of accumulated depreciation(Note 4)	31,048	0	31,048
TOTAL ASSETS	66,913	10,994	77,907
LIABILITIES			
Salaries and benefits payable	3,196	0	3,196
Deferred revenue:			
Other	6,123	0	6,123
TOTAL LIABILITIES	9,319	0	9,319
NET ASSETS			
Investment in capital assets	31,048	0	31,048
Unrestricted	26,546	10,994	37,540
TOTAL NET ASSETS	\$ 57,594	10,994	68,588

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
OPERATING REVENUE:			
Local sources:			
Charges for services	\$ 233,295	26,207	259,502
OPERATING EXPENSES:			
Non-instructional programs:			
Salaries	136,931	16,659	153,590
Benefits	37,137	2,067	39,204
Services	8,519	0	8,519
Supplies	253,240	2,962	256,202
Depreciation	7,420	0	7,420
Other	105	0	105
TOTAL OPERATING EXPENSES	443,352	21,688	465,040
OPERATING INCOME (LOSS)	(210,057)	4,519	(205,538)
NON-OPERATING REVENUES:			
State sources	6,697	0	6,697
Federal sources	207,548	0	207,548
Interest income	6	500	506
TOTAL NON-OPERATING REVENUES	214,251	500	214,751
Changes in net assets	4,194	5,019	9,213
Net assets beginning of year	53,400	5,975	59,375
Net assets end of year	\$ 57,594	10,994	68,588

SEE NOTES TO BASIC FINANCIAL STATEMENTS.



IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF CASH FLOWS  
PROPRIETARY FUNDS  
YEAR ENDED JUNE 30, 2006

	School Nutrition	Day Care	Total
Cash flows from operating activities:			
Cash received from sale of lunches and breakfasts	\$ 231,860	0	231,860
Cash received from miscellaneous sources	2,315	26,382	28,697
Cash paid to employees for services	(173,970)	(18,726)	(192,696)
Cash paid to suppliers for goods or services	(239,437)	(2,962)	(242,399)
Net cash used in operating activities	(179,232)	4,694	(174,538)
Cash flows from non-capital financing activities:			
State grants received	6,697	0	6,697
Federal grants received	180,889	0	180,889
Net cash provided by non-capital financing activities	187,586	0	187,586
Cash flows from capital financing activities:			
Acquisition of assets	(694)	0	(694)
Cash flows from investing activities:			
Interest on investments	6	500	506
Net increase in cash and cash equivalents	7,666	5,194	12,860
Cash and cash equivalents at beginning of year	17,435	5,800	23,235
Cash and cash equivalents at end of year	\$ 25,101	10,994	36,095
Reconciliation of operating income(loss) to net cash preovided by(used in) operating activities:			
Operating income(loss)	\$ (210,057)	4,519	(205,538)
Adjustments to reconcile operating income(loss) to net cash provided by(used in) operating activities:			
Commodities consumed	26,659	0	26,659
Depreciation	7,420	0	7,420
Increase in inventories	(1,782)	0	(1,782)
(Increase)Decrease in accounts receivable	(1,206)	175	(1,031)
Decrease in accounts payable	(2,450)	0	(2,450)
Increase in salaries and benefits payable	98	0	98
Increase in deferred revenue	2,086	0	2,086
Net cash used in operating activities	\$ (179,232)	4,694	(174,538)
RECONCILIATION OF CASH AND CASH EQUIVALENTS AT YEAR END TO SPECIFIC ASSETS INCLUDED ON COMBINED BALANCE SHEET:			
Current assets:			
Cash and pooled investments	\$ 25,101	10,994	36,095

NON-CASH INVESTING, CAPITAL AND FINANCING ACTIVITIES:

During the year ended June 30, 2006, the District received Federal commodities valued at \$26,659.

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
STATEMENT OF FIDUCIARY ASSETS AND LIABILITIES  
FIDUCIARY FUNDS  
JUNE 30, 2006

	<u>Private Purpose Trust Scholarship</u>	<u>Agency</u>
ASSETS		
Cash and pooled investments	\$ 20,795	2,248
LIABILITIES		
Due to other groups	0	2,248
NET ASSETS		
Reserved for scholarships	<u>\$ 20,795</u>	<u>0</u>

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
 FIDUCIARY FUNDS  
 YEAR ENDED JUNE 30, 2006

	Private Purpose Trust Scholarship
Additions:	
Local sources:	
Interest	\$ 1,183
Deductions:	
Support services:	
Scholarships awarded	830
Change in net assets	353
Net assets beginning of year	20,442
Net assets end of year	\$ 20,795

SEE NOTES TO BASIC FINANCIAL STATEMENTS.

IOWA FALLS COMMUNITY SCHOOL DISTRICT

NOTES TO FINANCIAL STATEMENTS

JUNE 30, 2006

(1) **Summary of Significant Accounting Policies**

The Iowa Falls Community School District is a political subdivision of the State of Iowa and operates public schools for children in grades kindergarten through twelve. The geographic area served includes the city of Iowa Falls, Iowa, and the predominate agricultural territory in Hardin and Franklin Counties. The District is governed by a Board of Education whose members are elected on a non-partisan basis.

The District's financial statements are prepared in conformity with U.S. generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board.

A. Reporting Entity

For financial reporting purposes, Iowa Falls Community School District has included all funds, organizations, agencies, boards, commissions and authorities. The District has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the District are such that exclusion would cause the District's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the District to impose its will on that organization or (2) the potential for the organization to provide specific benefits to, or impose specific financial burdens on the District. The Iowa Falls Community School District has no component units which meet the Governmental Accounting Standards Board criteria.

Jointly Governed Organizations - The District participates in a jointly governed organization that provides services to the District but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. The District is a member of the Hardin and Franklin County Assessors' Conference Board.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Net Assets and the Statement of Activities report information on all of the nonfiduciary activities of the District. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, which normally are supported by tax and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support.

The Statement of Net Assets presents the District's nonfiduciary assets and liabilities, with the difference reported as net assets. Net assets are reported in three categories:

*Invested in capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net assets use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net asset* consist of net assets that do not meet the definition of the two preceding categories. Unrestricted net assets often have constraints on resources that are imposed by management, but can be removed or modified.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest that are restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program revenues are reported instead as general revenues.

Fund Financial Statements - Separate financial statements are provided for governmental, proprietary, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as other nonmajor governmental funds.

The District reports the following major governmental funds:

The General Fund is the general operating fund of the District. All general tax revenues and other receipts that are not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating expenses, including instructional, support and other costs.

The Capital Projects Fund is utilized to account for all resources used in the acquisition and construction of capital facilities, with the exception of those that are financed through enterprise funds.

The Debt Service Fund is utilized to account for the payment of interest and principal on the District's general long-term debt.

The District reports the following proprietary funds:

The District's proprietary funds are the Enterprise, School Nutrition Fund and Enterprise, Day Care Fund. The School Nutrition Fund is used to account for the food service operations of the District. The Day Care Fund is used to account for the day care service operations of the District.

The District also reports fiduciary funds which focus on net assets and changes in net assets. The District's fiduciary funds include the following:

The Private Purpose Trust Fund is used to account for assets held by the District under trust agreements which require income earned to be used to benefit individuals through scholarship awards.

The Agency Fund is used to account for assets held by the District as an agent for individuals, private organizations. The Agency Fund is custodial in nature, assets equal liabilities, and does not involve measurement of result of operations.

#### C. Measurement Focus and Basis of Accounting

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property tax is recognized as revenue in the year for which it is levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been satisfied.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days after year end.

Property tax, intergovernmental revenues (shared revenues, grants and reimbursements from other governments) and interest associated with the current fiscal period are all considered to be susceptible to accrual. All other revenue items are considered to be measurable and available only when cash is received by the District.

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, principal and interest on long-term debt, claims and judgments, and compensated absences are recognized as expenditures only when payment is due. Capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources.

Under terms of grant agreements, the District funds certain programs by a combination of specific cost-reimbursement grants and general revenues. Thus, when program expenses are incurred, there are both restricted and unrestricted net assets available to finance the program. It is the District's policy to first apply cost-reimbursement grant resources to such programs, and then general revenues.

The proprietary fund of the District applies all applicable GASB pronouncements as well as the following pronouncements issued on or before November 30, 1989, unless these pronouncements conflict with or contradict GASB pronouncements: Financial Accounting Standards Board Statements and Interpretations, Accounting Principles Board Opinions, and Accounting Research Bulletins of the Committee on Accounting Procedure.

Proprietary funds distinguish operating revenues and expenses from nonoperating items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the District's Enterprise Fund is charges to customers for sales and services. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

The District maintains its financial records on the cash basis. The financial statements of the District are prepared by making memorandum adjusting entries to the cash basis financial records.

#### D. Assets, Liabilities and Fund Equity

The following accounting policies are followed in preparing the financial statements:

Cash, Pooled Investments and Cash Equivalents - The cash balances of most District funds are pooled and invested. Investments are stated at fair value.

For purposes of the statement of cash flows, all short-term cash investments that are highly liquid are considered to be cash equivalents. Cash equivalents are readily convertible to known amounts of cash and, at the day of purchase, they have a maturity date no longer than three months.

Property Tax Receivable - Property tax in the governmental funds are accounted for using the modified accrual basis of accounting.

Property tax receivable is recognized in these funds on the levy or lien date, which is the date that the tax asking is certified by the Board of Education. Delinquent property tax receivable represents unpaid taxes for the current and prior years. The succeeding year property tax receivable represents taxes certified by the Board of Education to be collected in the next fiscal year for the purposes set out in the budget for the next fiscal year. By statute, the District is required to certify its budget in April of each

year for the subsequent fiscal year. However, by statute, the tax asking and budget certification for the following fiscal year becomes effective on the first day of that year. Although the succeeding year property tax receivable has been recorded, the related revenue is deferred in both the government-wide and fund financial statements and will not be recognized as revenue until the year for which it is levied.

Property tax revenue recognized in these funds become due and collectible in September and March of the fiscal year with a 1½% per month penalty for delinquent payments; is based on January 1, 2004 assessed property valuations; is for the tax accrual period July 1, 2005 through June 30, 2006 and reflects the tax asking contained in the budget certified to the County Board of Supervisors in April, 2005.

Due from Other Governments - Due from other governments represents amounts due from the State of Iowa, various shared revenues, grants and reimbursements from other governments.

Inventories - Inventories are valued at cost using the first-in, first-out method for purchased items and government commodities. Inventories of proprietary funds are recorded as expenses when consumed rather than when purchased or received.

Capital Assets - Capital assets, which include property, machinery and equipment, are reported in the applicable governmental or business-type activities columns in the government-wide Statement of Net Assets. Capital assets are recorded at historical cost. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Capital assets are defined by the District as assets with an initial, individual cost in excess of the following thresholds and estimated useful lives in excess of two years.

Asset Class	Amount
Land	\$ 500
Buildings	2,000
Land improvements	1,000
Machinery and equipment:	
School Nutrition Fund equipment	500
Other machinery and equipment	500

Capital assets are depreciated using the straight line method over the following estimated useful lives:

Asset Class	Estimated Useful Lives (In Years)
Buildings	50 years
Land improvements	5-20 years
Machinery and equipment	3-15 years

Salaries and Benefits Payable - Payroll and related expenditures for the current school year, which is paid in July and August, have been accrued as liabilities.



Deferred Revenue - Although certain revenues are measurable, they are not available. Available means collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue in the governmental fund financial statements represent the amount of assets that have been recognized, but the related revenue has not been recognized since the assets are not collected within the current period or expected to be collected soon enough thereafter to be used to pay liabilities of the current period. Deferred revenue consists of unspent grant proceeds as well as property tax receivables and other receivables not collected within sixty days after year end.

Deferred revenue on the Statement of Net Assets consists of succeeding year property tax receivable that will not be recognized as revenue until the year for which it is levied.

Long-term Liabilities - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the governmental activities column in the Statement of Net Assets.

Fund Equity - In the governmental fund financial statements, reservations of fund balance are reported for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose.

Restricted Net Assets - In the government-wide Statement of Net Assets, net assets are reported as restricted when constraints placed on net asset use are either externally imposed by creditors, grantors, contributors or laws and regulations of other governments or imposed by law through constitutional provisions or enabling legislation.

#### E. Budgeting and Budgetary Control

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2006 expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.

#### (2) **Cash and Pooled Investments**

The District's deposits at June 30, 2006 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The District is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the Board of Education; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The District's investments are categorized to give an indication of the level of risk assumed by the District at year end. The Certificates of Deposit are classified as Category 1, which means the investments are insured or registered and the securities are held by the District in the District's name. Certificates of Deposit are stated at fair value.

At June 30, 2006, the District had investments in Certificates of Deposit maturing in over one year as follows:

Type	Fair Value
Certificates of Deposit	\$ 19,053

**(3) Interfund Transfers**

The detail of interfund transfers for the year ended June 30, 2006 is as follows:

Transfer to	Transfer from	Amount
Debt Service	Capital Projects	\$ 195,470

Transfers generally move revenues from the fund statutorily required to collect the resources to the fund statutorily required to expend the resources.

**(4) Iowa School Cash Anticipation Program (ISCAP)**

The District participates in the Iowa School Cash Anticipation Program (ISCAP). ISCAP is a program of the Iowa Association of School Boards and is designed to provide funds to participating entities during periods of cash deficits. ISCAP is funded by a semiannual issuance of anticipatory warrants, which mature as noted below. The warrant sizing of each school corporation is based on a projection of cash flow needs during the semiannual period. ISCAP accounts are maintained for each participating entity, and monthly statements are provided regarding their cash balance, interest earnings and amounts available for withdrawal for each outstanding series of warrants. Banker's Trust Co. NA is the trustee for the program. A summary of the District's participation in ISCAP at June 30, 2006 is as follows:

Series	Warrant Date	Final Warrant Maturity	Investments	Accrued Interest Receivable	Warrants Payable	Accrued Interest Payable
2006-07A	6/28/2006	6/28/2007	\$ 896,752	279	898,000	228

The district pledges its state foundation aid payments and General Fund receipts as security for warrants issued. Repayments must be made when General Fund receipts are received. If a balance is outstanding on the last date the funds are available to be drawn, then the District must repay the outstanding withdrawal from its General Fund receipts. In addition, the District must make minimum warrant repayments on the 25<sup>th</sup> of each month immediately following the final date that the warrant proceeds may be used in an amount equal to 25% of the warrant amount. At June 30, 2006, no ISCAP advance activity was noted.

The warrants bear interest and the available proceeds of the warrant are invested at the interest rates shown below:

Series	Interest Rates on Warrants	Interest Rates on Investments
2006-07A	4.500%	5.676%

**(5) Capital Assets**

Capital assets activity for the year ended June 30, 2006 is as follows:

	Balance Beginning of Year	Increases	Decreases	Balance End of Year
Governmental activities:				
Capital assets not being depreciated:				
Land	\$ 128,358	0	0	128,358
Construction in progress	0	155,263	0	155,263
Total capital assets not being depreciated	128,358	155,263	0	283,621
Capital assets being depreciated:				
Buildings	7,939,267	116,252	0	8,055,519
Land improvements	717,987	4,125	0	722,112
Machinery and equipment	4,251,134	203,160	33,323	4,420,971
Total capital assets being depreciated	12,908,388	323,537	33,323	13,198,602
Less accumulated depreciation for:				
Buildings	3,365,542	162,825	0	3,528,367
Land improvements	567,472	10,355	0	577,827
Machinery and equipment	3,517,378	293,968	33,323	3,778,023
Total accumulated depreciation	7,450,392	467,148	33,323	7,884,217
Total capital assets being depreciated, net	5,457,996	(143,611)	0	5,314,385
Governmental activities capital assets, net	\$ 5,586,354	11,652	0	5,598,006
Business-type activities:				
Machinery and equipment	\$ 233,774	694	82,891	151,577
Less accumulated depreciation	196,000	7,420	82,891	120,529
Business-type activities capital assets, net	\$ 37,774	(6,726)	0	31,048

Depreciation expense was charged by the District as follows:

Governmental activities:	
Instruction:	
Regular	\$ 179,473
Special	2,276
Other	24,060
Support services:	
Student	16,482
Instructional staff	18,069
Administration	4,614
Operation and maintenance of plant	7,606
Transportation	41,388
	293,968
Unallocated depreciation	173,180
Total governmental activities depreciation expense	\$ 467,148
Business-type activities:	
Food services	\$ 7,420

**(6) Long-Term Liabilities**

Changes in long-term liabilities for the year ended June 30, 2006 are summarized as follows:

	Balance Beginning of Year	Additions	Deletions	Balance End of Year	Due Within One Year
General Obligation Bonds	\$ 3,845,000	0	2,000,000	1,845,000	300,000
Early Retirement	315,166	66,776	133,865	248,077	123,487
Total	\$ 4,160,166	66,776	2,133,865	2,093,077	423,487

General Obligation Bonds Payable

Details of the District's June 30, 2006 general obligation bonded indebtedness are as follows:

Year Ending June 30,	Interest Rates	Bond Issue of August 1, 2003		
		Principal	Interest	Total
2007	1.85 %	\$ 300,000	47,505	347,505
2008	2.15	305,000	41,955	346,955
2009	2.50	315,000	35,398	350,398
2010	2.80	320,000	27,523	347,523
2011-2012	3.00-3.15	605,000	27,226	632,226
Total		\$ 1,845,000	179,607	\$ 2,024,607

Early Retirement

The District offered an early retirement incentive to its certified employees. Eligible employees must be at least age fifty-five and must have completed twelve years of continuous service to the District. Employees must complete an application which is subject to approval by the Board of Education. Early retirement expenditures for the year ended June 30, 2006 totaled \$133,865. A liability has been recorded in the government-wide financial statements representing the District's commitment to fund non-current early retirement.

**(7) Bond Defeasement**

On August 1, 2003, the District issued \$1,845,000 in general obligation bonds to advance refund \$1,755,000 of outstanding general obligation bonds dated May 1, 1997. The proceeds of the refunding issues have been placed in an irrevocable escrow account and have been invested in U.S. Government obligations which have been certified to be sufficient to pay all principal and interest on the refunded bonds. The new advance refunding bonds have been added to the appropriate financial statements and schedules. The District remains contingently liable in the remote possibility the account is insufficient to pay the refunding bonds. At June 30, 2006, \$0 of such bonds is outstanding. Defeasement of principal and interest for the year was \$1,755,000 and \$348,232.

**(8) Pension and Retirement Benefits**

The District contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by State statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the District is required to contribute 5.75% of annual covered payroll for the years ended June 30, 2006, 2005 and 2004. Contribution requirements are established by State statute. The District's contribution to IPERS for the years ended June 30, 2006, 2005 and 2004 were \$367,147, \$287,284 and \$280,064 respectively, equal to the required contributions for each year.

**(9) Risk Management**

Iowa Falls Community School District is exposed to various risks of loss related to torts; theft; damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The District assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**(10) Area Education Agency**

The District is required by the Code of Iowa to budget for its share of special education support, media and educational services provided through the area education agency. The District's actual amount for this purpose totaled \$321,953 for the year ended June 30, 2006 and is recorded in the General Fund by making a memorandum adjusting entry to the cash basis financial statements.

**(11) Budget Overexpenditure**

Per the Code of Iowa, disbursements may not legally exceed the certified budget amounts. During the year ended June 30, 2006 disbursements in the support services and non-instructional programs functions exceeded the amounts budgeted.

**(12) Construction Commitment**

The District has entered into a contract totaling \$454,301 for the construction of a new auditorium. As of June 30, 2006, costs of \$155,263 had been incurred against the contract. The balance of \$299,038 remaining at June 30, 2006 will be paid as work on the project progresses.

REQUIRED SUPPLEMENTARY INFORMATION

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
BUDGETARY COMPARISON OF REVENUES, EXPENDITURES AND  
CHANGES IN BALANCES -  
BUDGET AND ACTUAL - ALL GOVERNMENTAL FUNDS  
AND PROPRIETARY FUNDS  
REQUIRED SUPPLEMENTARY INFORMATION  
YEAR ENDED JUNE 30, 2006

	Governmental		Proprietary			Final to
	Fund Types	Fund Type	Total			Actual
	Actual	Actual	Actual	Original	Final	Variance
Revenues:						
Local sources	\$ 5,421,284	260,008	5,681,292	5,081,774	5,081,774	599,518
State sources	4,908,993	6,697	4,915,690	4,903,117	4,903,117	12,573
Federal sources	272,801	207,548	480,349	432,301	432,301	48,048
Total revenues	10,603,078	474,253	11,077,331	10,417,192	10,417,192	660,139
Expenditures:						
Instruction	6,485,458	0	6,485,458	6,758,163	6,758,163	272,705
Support services	2,649,600	0	2,649,600	2,273,338	2,525,000	(124,600)
Non-instructional programs	21,368	465,040	486,408	478,234	478,234	(8,174)
Other expenditures	1,098,114	0	1,098,114	1,366,672	1,366,672	268,558
Total expenditures	10,254,540	465,040	10,719,580	10,876,407	11,128,069	408,489
Excess(deficiency) of revenues over(under) expenditures	348,538	9,213	357,751	(459,215)	(710,877)	1,068,628
Other financing uses, net	(1,802,805)	0	(1,802,805)	0	0	(1,802,805)
Excess(deficiency) of revenues and other financing uses over(under) expenditures	(1,454,267)	9,213	(1,445,054)	(459,215)	(710,877)	(734,177)
Balance beginning of year	3,342,724	59,375	3,402,099	3,949,230	3,949,230	(547,131)
Balance end of year	\$ 1,888,457	68,588	1,957,045	3,490,015	3,238,353	(1,281,308)

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
NOTES TO REQUIRED SUPPLEMENTARY INFORMATION - BUDGETARY REPORTING  
YEAR ENDED JUNE 30, 2006

This budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standard Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the Board of Education annually adopts a budget following required public notice and hearing for all funds, except Private Purpose Trust and Agency Funds. The budget may be amended during the year utilizing similar statutorily prescribed procedures. The District's budget is prepared on a GAAP basis.

Formal and legal budgetary control for the certified budget is based upon four major classes of expenditures known as functional areas, not by fund or fund type. These four functional areas are instruction, support services, non-instructional programs and other expenditures. Although the budget document presents functional area expenditures or expenses by fund, the legal level of control is at the aggregated functional level, not at the fund or fund type level. The Code of Iowa also provides that District expenditures in the General Fund may not exceed the amount authorized by the school finance formula. During the year, the District adopted one budget amendment increasing budgeted expenditures by \$251,662

During the year ended June 30, 2006, expenditures in the support services and non-instructional programs functions exceeded the amounts budgeted.



OTHER SUPPLEMENTARY INFORMATION

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 COMBINING BALANCE SHEET  
 NONMAJOR SPECIAL REVENUE FUNDS  
 JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expend- able Trust	Total
<b>ASSETS</b>					
Cash and pooled investments	\$ 35,059	85,951	0	19,452	140,462
Receivables:					
Property tax:					
Current year delinquent	3,678	0	963	0	4,641
Succeeding year	259,737	0	85,940	0	345,677
Accounts	0	2,147	0	0	2,147
<b>TOTAL ASSETS</b>	<b>\$ 298,474</b>	<b>88,098</b>	<b>86,903</b>	<b>19,452</b>	<b>492,927</b>
<b>LIABILITIES AND FUND BALANCES</b>					
Liabilities:					
Accounts payable	\$ 0	4,013	0	0	4,013
Salaries and benefits payable	14,472	0	0	0	14,472
Deferred revenue:					
Succeeding year property tax	259,737	0	85,940	0	345,677
Total liabilities	274,209	4,013	85,940	0	364,162
Unreserved fund balances	24,265	84,085	963	19,452	128,765
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<b>\$ 298,474</b>	<b>88,098</b>	<b>86,903</b>	<b>19,452</b>	<b>492,927</b>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND  
 CHANGES IN FUND BALANCES  
 NONMAJOR SPECIAL REVENUE FUNDS  
 YEAR ENDED JUNE 30, 2006

	Manage- ment Levy	Student Activity	Physical Plant and Equipment Levy	Expend- able Trust	Total
REVENUES:					
Local sources:					
Local tax	\$ 273,787	0	76,684	0	350,471
Other	200	262,190	7,382	31,494	301,266
State sources	258	0	68	0	326
Federal sources	0	0	25,000	0	25,000
TOTAL REVENUES	274,245	262,190	109,134	31,494	677,063
EXPENDITURES:					
Current:					
Instruction:					
Regular instruction	139,978	0	0	0	139,978
Other instruction	0	260,085	0	0	260,085
Support services:					
Student support	13,509	0	0	0	13,509
Instructional staff support	7,575	0	37,362	0	44,937
Administration services	58,456	0	1,750	0	60,206
Operation and maintenance of plant services	31,239	0	0	0	31,239
Student transportation	25,296	0	63,879	0	89,175
Non-instructional programs:					
Community service operations	0	0	0	21,368	21,368
Other:					
Facilities acquisitions	0	0	139,282	0	139,282
TOTAL EXPENDITURES	276,053	260,085	242,273	21,368	799,779
EXCESS(DEFICIENCY) OF REVENUES OVER(UNDER) EXPENDITURES	(1,808)	2,105	(133,139)	10,126	(122,716)
FUND BALANCE BEGINNING OF YEAR	26,073	81,980	134,102	9,326	251,481
FUND BALANCE END OF YEAR	\$ 24,265	84,085	963	19,452	128,765

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
HS Band Resale	\$ 332	517	604	245
HS Band Uniform Maint.	0	6,635	523	6,112
Elementary Band Resale	89	163	1	251
Elementary Vocal	341	1,543	1,700	184
MS Band Resale	64	163	160	67
RR Lion's Lead Dog	793	2,732	2,667	858
RR 5th Grade Lion Club	61	0	61	0
Pineview School Fund	12,577	21,327	21,457	12,447
Rock Run School Fund	12,483	19,789	19,645	12,627
HS Asset Builder SADD	194	1,836	610	1,420
HS Music Theater	8,118	2,048	1,620	8,546
HS Speech	0	1,500	1,121	379
MS Student Council	14,067	17,641	21,198	10,510
MS SCI	134	1,796	932	998
MS Freedom Pen	56	0	52	4
HS Vocal	2,731	440	667	2,504
HS Band	654	1,556	1,621	589
MS Life Girls Group	0	255	176	79
HS SCI	163	145	0	308
HS Marketing Club	490	0	0	490
FHA	17	0	0	17
Future Nurses	125	0	0	125
National Honors Society	443	150	150	443
Art Club	459	226	0	685
FFA	3,563	11,036	11,005	3,594
HS T-shirt Account	2,353	20,269	17,294	5,328
HS Student Council	2,488	1,951	1,904	2,535
HS International Club	974	1,595	1,114	1,455
HS Hearts Class	758	900	738	920
HS Math Club	2,466	515	1,099	1,882
Cheerleaders	126	0	126	0
HS Drill Team	643	2,880	1,656	1,867
Popcorn Fund	1,276	13,732	12,751	2,257
Yearbook Fund	3,974	17,091	14,062	7,003
Class of 2005	5,837	0	5,837	0
Class of 2006	3,137	1,772	5,203	(294)
Class of 2007	4,911	2,342	4,688	2,565
Class of 2008	13	4,325	0	4,338
Coed Cross Country	0	4,647	4,647	0
Baseball	0	1,172	1,172	0
Boys Basketball	700	6,687	7,387	0
Boys Golf	0	23	23	0
Boys Track	0	2,855	2,855	0
Football	700	17,613	18,313	0
Wrestling	244	6,533	6,777	0
Girls Basketball	700	10,232	10,932	0

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN SPECIAL REVENUE FUND, STUDENT ACTIVITY ACCOUNTS  
 YEAR ENDED JUNE 30, 2006

Account	Balance Beginning of Year	Revenues	Expendi- tures	Balance End of Year
Soccer	0	1,854	5,995	(4,141)
Girls Golf	0	1,008	1,008	0
Softball	0	847	847	0
Coed Tennis	0	1,181	1,181	0
Girls Track	0	3,021	3,021	0
Girls Volleyball	700	4,318	5,018	0
Activity Ticket Sales	0	9,158	9,158	0
HS Athletics Misc.	(6,122)	29,139	28,201	(5,184)
Athletics Resale	0	365	365	0
Interest	168	647	743	72
Ending accruals	(2,020)	2,020	0	0
Total	\$ 81,980	262,190	260,085	84,085

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
 SCHEDULE OF CHANGES IN FIDUCIARY ASSETS AND LIABILITIES -  
 AGENCY FUND  
 YEAR ENDED JUNE 30, 2006

	Balance Beginning of Year	Additions	Deductions	Balance End of Year
ASSETS				
Cash and pooled investments	\$ 2,374	1,563	1,689	2,248
LIABILITIES				
Due to other groups	\$ 2,374	1,563	1,689	2,248

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF REVENUES BY SOURCE AND EXPENDITURES BY FUNCTION  
ALL GOVERNMENTAL FUND TYPES  
FOR THE LAST FOUR YEARS

Modified Accrual Basis				
Years Ended June 30,				
	2006	2005	2004	2003
Revenues:				
Local sources:				
Local tax	\$ 3,797,258	3,947,659	3,429,851	3,453,720
Tuition	778,711	697,387	302,960	301,391
Other	845,315	529,728	429,504	407,221
State sources	4,908,993	4,558,433	4,320,386	4,447,239
Federal sources	272,801	277,022	225,561	252,726
Total	<u>\$ 10,603,078</u>	<u>10,010,229</u>	<u>8,708,262</u>	<u>8,862,297</u>
Expenditures:				
Instruction:				
Regular instruction	\$ 4,156,134	4,053,370	3,571,312	3,687,663
Special instruction	1,149,358	1,063,467	1,259,125	1,343,791
Other instruction	1,179,966	1,301,139	790,302	739,657
Support services:				
Student services	266,983	75,269	76,568	194,857
Instructional staff services	305,943	184,432	208,303	201,590
Administration services	1,014,899	920,556	822,277	740,894
Operation and maintenance of plant services	713,783	650,725	644,017	592,275
Transportation services	347,992	243,628	210,146	290,524
Non-instructional programs	21,368	12,210	1,213	1,220
Other expenditures:				
Facilities acquisitions	424,184	227,948	208,757	87,565
Long-term debt:				
Principal	245,000	230,000	215,000	205,000
Interest and other charges	106,977	166,513	166,564	143,228
AEA flow-through	321,953	305,072	308,090	322,323
Total	<u>\$ 10,254,540</u>	<u>9,434,329</u>	<u>8,481,674</u>	<u>8,550,587</u>

SEE ACCOMPANYING INDEPENDENT AUDITOR'S REPORT.

**NOLTE, CORNMAN & JOHNSON P.C.**  
**Certified Public Accountants**  
(a professional corporation)  
117 West 3rd Street North, Newton, Iowa 50208-3040  
Telephone (641) 792-1910

Independent Auditor's Report on Internal Control over Financial Reporting and  
on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance with  
Government Auditing Standards

To the Board of Education of the  
Iowa Falls Community School District:

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund and the aggregate remaining fund information of Iowa Falls Community School District as of and for the year ended June 30, 2006, which collectively comprise the District's basic financial statements listed in the table of contents, and have issued our report thereon dated September 11, 2006. We conducted our audit in accordance with U.S. generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Iowa Falls Community School District's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the District's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part I of the accompanying Schedule of Findings.

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item I-A-06 is a material weakness.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Iowa Falls Community School District's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express an opinion. The results of our tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance or other matters that are described in Part II of the accompanying Schedule of Findings.

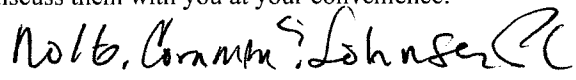
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Comments involving statutory and other legal matters about the District's operations for the year ended June 30, 2006 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the District. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of Iowa Falls Community School District and other parties to whom Iowa Falls Community School District may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of Iowa Falls Community School District during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

  
NOLTE, CORNMAN & JOHNSON, P.C.

September 11, 2006

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part I: Findings Related to the Basic Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were reported.

REPORTABLE CONDITIONS:

- I-A-06 Segregation of Duties - One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. Cash receipts are issued and bank deposits are prepared by the same person. An independent person does not open the mail and prepare an initial listing of the checks received and later compare the listing to the receipts issued. Also, vouchers are processed, disbursements are recorded, and checks are prepared by the same person.

Recommendation - We realize segregation of duties is difficult with a limited number of office employees. However, the District should review its procedures to obtain the maximum internal control possible under the circumstances.

Response - The District is aware of the lack of complete segregation of duties and will make changes as the opportunity arises.

Conclusion - Response accepted.

- I-B-06 Checks Outstanding - We noted during our audit that the District had checks included in the bank reconciliation which have been outstanding for over one year.

Recommendation - The District should research the outstanding checks to determine if they should be reissued, voided or submitted to the Treasurer of Iowa as unclaimed property.

Response - In the future, the District will report the unclaimed property to the Great Iowa Treasure Hunt.

Conclusion - Response accepted.

- I-C-06 Student Activity Funds - During our audit issues arose about certain expenditures paid from the Student Activity Fund. Inappropriate expenditures would include any expenditure more appropriate to other funds. The Student Activity fund shall not be used as a clearing account for any other fund. This is not an appropriate fund to use for public tax funds, trust funds, state and federal grants or aids, textbook/library book fines, fees, rents, or sales, textbook/library book purchases, sales of school supplies, curricular activities, or any other revenues or expenditures more properly included in another fund. Moneys in this fund shall be used to support only the cocurricular program defined in Department of Education administrative rules (298A.8). Fundraisers and donations made to the school should be recorded in the fund in which they could be expended.

Recommendation - The purpose of the Student Activity fund is to account for financial transactions related to the cocurricular and extracurricular activities offered as part of the education program for the students established under Iowa Administrative Code 281-12.6(1).

More specifically, it appears that the purchase made from the Rock Run account for playground mulch would appear to be more appropriately accounted for in the PPEL Fund. The District should review expenditures made from this account. If expenditures do not meet the guidelines mentioned above, the account should be closed out to a fund where the expenditures would be more appropriate.

Response - The District has reviewed the classification of expenditures and has taken steps to ensure that expenditures are coded to the appropriate funds.

Conclusion - Response accepted.

I-D-06 District and Regional Rents - We noted during our audit that the District receives money for use of facilities when hosting district and regional events.

Recommendation - Chapter 297.9 of the code of Iowa requires rent to be receipted into the General Fund. The District should receipt rent collected for facility usage into the General Fund.

Response - In the future, the District will monitor this more closely to make sure rent is receipted to the General Fund.

Conclusion - Response accepted.

IOWA FALLS COMMUNITY SCHOOL DISTRICT  
SCHEDULE OF FINDINGS  
YEAR ENDED JUNE 30, 2006

Part II: Other Findings Related to Statutory Reporting

- II-A-06 Certified Budget - District disbursements for the year ended June 30, 2006 exceeded the certified budget amounts in the support services and non-instructional programs functions.

Recommendation - The certified budget should have been amended in accordance with Chapter 24.9 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response - We will amend the budget in the future.

Conclusion - Response accepted.

- II-B-06 Questionable Disbursements - We noted no disbursements that may not meet the requirements for public purpose as defined in an Attorney General's opinion dated April 25, 1979.

- II-C-06 Travel Expense - No expenditures of District money for travel expenses of spouses of District officials or employees were noted. No travel advances to District officials or employees were noted.

- II-D-06 Business Transactions - No business transactions between the District and District officials were noted.

- II-E-06 Bond Coverage - Surety bond coverage of District officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

- I-F-06 Board Minutes - We noted no transactions requiring Board approval which have not been approved by the Board.

- I-G-06 Certified Enrollment - We noted a variance in Line 3 of the basic enrollment data certified to the Department of Education. The number of tuitioned out students was overstated by 1.0.

Recommendation - The District should contact the Iowa Department of Education and the Department of Management to resolve this matter.

Response - The District has contacted the Department of Education and the matter has been resolved.

Conclusion - Response accepted.

- II-H-06 Deposits and Investments - We noted no instances of non-compliance with the deposit and investment provisions of Chapter 12B and Chapter 12C of the Code of Iowa and the District's investment policy.

- II-I-06 Certified Annual Report - The Certified Annual Report was filed with the Department of Education timely, and we noted no significant deficiencies in the amounts reported.

II-J-06 Financial Condition - The District had three negative accounts totaling \$9,619 in the Student Activity Fund.

Recommendation - The District should review purchase approval procedures for the Student Activity Fund and may wish to require additional approval before ordering goods or services from these accounts. The District should investigate alternatives to eliminate these deficit balances.

Response - The District is working on ways to eliminate the deficit.

Conclusion - Response accepted.